

11. FINANCIAL PROGRAM

This chapter provides an analysis of the Utility's ability to fund operations, maintenance activities and capital improvements.

11.1 PAST FINANCIAL HISTORY

The financial statements of the county funds established for the utility were used to prepare revenues and expenditures since operation of the Utility on October 31, 2010. Table 11.1 summarizes the revenues and expenditures from 2010 to 2014.

The table is distinguished between two funding sources: operations from water sales and capital improvement projects from other sources. Lewis County was successful in obtaining two funding sources for a water system improvement project in 2010. These were the CDBG General Purpose Grant and DWSRF Loan. Completion of the two funding contracts will be finalized in 2015.

TABLE 11.1 – SUMMARY OF SIX-YEAR FINANCIAL HISTORY						
	FUND BALANCE (\$)					2015
	2010* (Oct-Dec)	2011	2012	2013	2014**	
BEGINNING BALANCE	\$24,281	\$49,473	-\$25,872	-\$1,367	\$12,045	42,262
REVENUE						
Water Sales	50,485	246,821	261,407	288,337	331,221	311,605
Transfer in from Debt Service Fund 211						17,897
TOTAL REVENUE	\$50,485	\$246,821	\$261,407	\$288,337	\$331,221	\$329,502
EXPENDITURES						
Operating Expenses						
• Labor & Benefits	15,328	154,571	129,640	167,622	142,348	147,050
• Materials & Supplies	848	33,733	12,831	13,214	6,214	9,261
• Utilities	2,187	12,324	13,188	12,531	15,094	12,137
• Equipment	2,181	14,420	12,900	18,936	19,705	17,430
• Training	0	977	414	1,230	3,646	2,646
• Operation Fees	4,001	696	3,850	1,422	13,465	5,730
• Services/Repairs	749	53,543	26,562	22,891	63,889	48,537
Total Operating Expenses	\$25,293	\$270,264	\$199,385	\$237,846	\$264,361	\$242,791
Debt Service	-	51,902	37,517	37,079	36,642	57,801
TOTAL EXPENSES	\$25,293	\$322,166	\$236,902	\$274,925	\$301,003	\$300,592
FUND BALANCE	\$49,473	-\$25,872	-\$1,367	\$12,045	\$42,262	\$71,172

CAPITAL IMPROVEMENT FUND						
Capital Revenue	5,313	170,720	1,056,832	66,472	12,676	
Capital Expense	5,313	170,720	1,056,832	66,472	12,676	
CAPITAL FUND BALANCE	\$0	\$0	\$0	\$0	\$0	

* The 2010 revenue is as of 12/20/10 and reflects revenue incurred for Oct.-Nov. 2010 and due by January 5, 2011.

**The values for 2014 are a total of two funds. A county fund was set up when ownership was transferred in April 2014. See explanation in Section 11.1.

The year-end balances in Table 11.1 should be viewed with caution because the operating revenue for the year does not represent total water sales for a calendar year. We bill water usage bimonthly on even numbered months, which poses a problem because the bill does not show water usage for the calendar year end. For example, the water bill sent out in early February is for water usage incurred from December through January with payment due in early March. Water sales for the end of the calendar year are not realized until the first quarter of the next year.

Lewis County fiscal reports did not adjust water sales to reflect calendar year end usage, yet expenditures were captured and reported as representative of calendar year end expenses. This practice was done while the utility system was in receivership because the receivership period was assumed to be no more than a year. The fiscal budget and matters of the utility were kept separate during receivership as it was not yet a county revenue fund. However, with the transfer of ownership completed on April 30, 2014, county fiscal reports for the utility will be consistent with other county revenue funds.

Lewis County set up a new county revenue fund to use when transfer of ownership was completed on April 30, 2014. Fund balances from the receivership fund were transferred into the county revenue fund in 2014, thus the 2014 values for revenue and expenditures are unusually higher than normal.

Despite the different cutoff periods used in county reports for revenue and expenditures, the table shows that expenditures are exceeding water sales.

11.2 RATES

The current Utility rates are based on a monthly base charge and usage charge. Customers are billed every two months. Skip Rand from Rural Community Assistance Corporation (RCAC) provided his expertise in utility rate structuring and worked with Lewis County to help determine a range of rates representative to capture operating and maintenance costs, loan payments and reserve. The water system administrator determined the minimum revenue needed to successfully operate the water system, and Lewis County held several community meetings about the receivership process. Clarification was also made at these meeting that the water utility must pay for itself—there are no county funds to supplement the operation of the failing water system. County procedures are in place to borrow from the Treasurer but it is a loan with interest. The county used an interactive spreadsheet at the public work sessions to show several rate scenarios including: flat fee with variable usage throughout service area, flat fee inside and outside the city, base-and-usage rates throughout service area, and base-and-usage rates inside

and outside the city. After much discussion and public input, it was generally agreed that a base rate plus -usage rate structure would be the appropriate structure for the water system.

Table 11.2 shows the monthly water rates used by the City of Vader and the Utility. To keep it simple, the Utility uses a base and usage rate structure throughout the service area. The old rate structure used a flat fee for up to 9,000 gallons bimonthly and extra usage at \$0.20 per 100 gallons. The County water rates were approved in March 2011 and applied for water usage as of April 1, 2011. A copy of the current utility rates and fees is available in Appendix H.

TABLE 11.2 – MONTHLY WATER RATES			
CUSTOMER CLASS	CITY OF VADER		LEWIS COUNTY UTILITY
	INSIDE CITY LIMITS*	OUTSIDE CITY LIMITS*	
Residential	\$44.05	\$40.05	\$43.50 + \$6.50/1000 gallons
Commercial	-	-	\$43.50 + \$6.50/1000 gallons
Churches	\$40.05	\$40.05	Considered <i>Commercial</i>
Non-Profit	\$40.05	\$40.05	Considered <i>Commercial</i>
Business	\$44.05	\$44.05	Considered <i>Commercial</i>
School	\$44.05	\$44.05	Considered <i>Commercial</i>
Senior/Low Income**	\$23.50**	\$23.50**	21.75 + \$6.50/1000 gallons

*The City rate includes up to 9,000/2-months.

**The City low income limit was \$11,000. The Utility uses current CDBG income limits.

11.3 DEVELOPMENT OF THE FINANCIAL PLAN

A financial plan was developed of projected revenues and expenditures. This six-year plan was made for 2015 to 2020 to demonstrate the Utility's ability to meet operational and improvement needs through the current rate revenue.

Successive budgets got better with each year of system operation. Specific operating expenses became known once major deferred maintenance, repairs and tasks were completed. With this knowledge, we could look for ways to improve efficiency and reduce costs.

Multiple main and service line repairs, deferred maintenance projects and cross training of county personnel were heavily undertaken in the first three years. The Utility was also operating the system under the receivership process with pending transfer of ownership which put some improvements on hold. Negotiations for the transfer of ownership were completed in February 2014 and the water utility came under County ownership on April 30, 2014.

Revenues

Revenue for the utility is primarily made up of water sales and water service fees for connection, hookup, shutoff and delinquent payments.

Expenses

Operation and maintenance expenses are comprised of personnel costs and benefits, utilities, materials and supplies, equipment, regulatory permit fees, loan payments and taxes. Our service area includes the City of Vader, and the City assesses a local utility tax on water, sewer and garbage utility services to each city customer regardless of City ownership. The Utility sends to

the City at every billing period the utility tax amount calculated at 7% of gross water sales in city limits.

11.4 FINANCIAL PROJECTIONS

A six-year financial plan was developed to show projected revenues, expenses and for capital improvement projects (CIP) for 2015 to 2020. The financial plan is to show the Utility's ability to meet operational and capital improvements through rate revenues.

The 2015 budget was used to start the six-year financial planning. Projections for revenue are based on the projected ERU demands outlined in Chapter 3 (Table 3.14) with the current number of approved connections used for 2015. The utility is currently approved for 369 connections and the 6-year projection shows an increase of 32 connections so an increase of 5-6 connections per year was used to project additional services at the existing rate structure. The projected connections are shown in the six-year financial plan as "additional services" revenue.

Operational expenses include a one to two percent cost of living and inflation adjustment for personnel and some services. No increased utility rates (for power and fuel) and operation fees (to DOH and Ecology) were used. In 2015, there were two outstanding debt payments to be made annually. In 2015, Lewis County started paying back a DWSRF loan for \$722,000 which was half loan and half forgivable loan for the installation of 6,000 ft of pipe.

The CIP projects are taken from Chapter 10. The analysis in Chapter 10 differentiated between renewal and replacement, and growth-related projects. The CIP analysis shows that funding will need to be from several sources: rate revenues, grants, loans, bonds, developer contributions and special assessment districts. Section 11.5 describes funding sources that are available.

The six-year financial plan is summarized in Table 11.3. Projections for 2015 and 2016 are taken from the preliminary budgets either approved or under review by Lewis County. The remaining projections are made using the ERU trend summarized in Chapter 3, and anticipated expenses. If unusual requirements are known, it is used in the projections. For example, monthly analyses for total and dissolved arsenic are anticipated in 2016-2017 as part of our Water Treatment Plant General Permit issued by Ecology.

11.5 FUNDING SOURCES

The Utility has been effective in securing grant and loan funds for CIP. The Utility will continue to obtain external funding sources and build the CIP program. A brief description is provided of some potential funding sources that may be applicable to our CIP program.

Capital Facility Charges

The Utility will strive to fund some CIP projects from capital facility charges. Rates will be derived in an amount equal to or greater than the annual depreciation expense for the utility, and designated for specific projects.

Community Development Block Grant (CDBG)

CDBG is a state administered federal grant that funds eligible local governments for community development projects that principally benefit low- and moderate-income persons. All CDBG funded projects must meet one of the three national objectives: principally benefit low- and moderate-income persons; prevent or eliminate slums or blight; and meet urgent needs posing serious and immediate threat to public health or safety. The CDBG program is administered by the State Department of Commerce.

Drinking Water State Revolving Fund (DWSRF)

The Safe Drinking Water Act (SDWA) amended in 1996 established the DWSRF to make funds available to drinking water systems to pay for infrastructure improvements. WSDOH manages this loan funding program which is available to all community public water systems; and non-profit, non-community public water systems except federally owned and state owned systems. The loans are used to pay for capital improvements that increase public health and compliance with drinking water regulations.

The terms of the loan are generally one percent less than municipal utility revenue bonds and may extend up to 20 years.

TABLE 11.3 – PROJECTED SIX-YEAR FINANCIAL PLAN						
	2016	2017	2018	2019	2020	2021
BEGINNING BALANCE	\$71,172	\$55,542	\$44,820	\$31,537	\$39,601	-\$60,134
REVENUE						
• Water Sales & Fees	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
• Additional Services	4,586	9,936	14,521	19,871	24,456	29,042
• CIP Rate Revenue (% of annual \$290K water sales)	0	\$717,000 CDBG GRANT	\$14,500	\$14,500	\$14,500	\$14,500
• Miscellaneous	0	0	0	0	0	
TOTAL REVENUE	\$304,586	\$1,026,936	\$329,021	\$334,371	\$338,956	\$343,542
EXPENSES						
Operation Expenses						
• Labor & Benefits	\$149,991 (2%)	\$152,991 (2%)	\$156,051 (2%)	\$159,172 (2%)	\$162,355 (2%)	\$165,602
• Materials & Supplies	10,000	10,000	10,000	10,000	10,000	10,000
• Utilities	12,198	12,259 (2%)	12,320 (2%)	12,382 (2%)	12,443 (2%)	12,506
• Equipment	17,500	17,500	17,500	17,500	17,500	17,500
• Training	2,098	2,200	2,200	2,200	2,200	2,200
• Operation Fees	5,787	5,845 (1%)	5,904 (1%)	5,963 (1%)	6,022 (1%)	6,083
• Services/Repairs	49,508	50,498(2 %)	51,508 (2%)	52,538 (2%)	53,589 (2%)	54,661
• Utility Tax 5.029%	16,113	16,396	17,405	17,688	17,931	18,173

Debt Service	50,522	49,970	49,417	48,865	48,750	48,366
Total-Operating Expenses	\$313,716	\$317,658	\$322,304	\$326,307	\$330,791	\$335,475
Capital Projects (CIP)						
ST-1, Reservoir Replacement		717,000				
D-1, SR506 west of Olequa Crk					107,900	
TR-1, Turbidimeters		3,000				
TR-4, online analyzer	6,500					
TR-5, SCADA Improvements			20,000			
D-11, PRV Stations						18,900
Total-CIP Expenses	\$6,500	\$720,000	\$20,000		\$107,900	
TOTAL EXPENSES	320,216	\$1,037,658	\$342,304	\$326,307	\$438,691	\$354,375
FUND BALANCE	\$55,542	\$44,820	\$31,537	-\$39,601	-\$60,134	-\$70,967

Public Works Trust Fund (PWTF)

This loan program is set up by the Legislature to assist cities, towns, counties and special districts for different types of public works projects. The projects can include streets, roads, drainage, potable water and sanitary sewer systems. The funding emphasis is on replacement and repair of existing water and sewer systems.

The loans are issued on a sliding scale based on the repayment term. No local match is required for PWTF loans. Debt service coverage is not imposed on the PWTF loan.

Section 319 Grants

Ecology administers the Section 319 grants program to public entities and tax-exempt nonprofits. The program provides funding for nonpoint source pollution control activities such as groundwater/source water/wellhead planning and protection, lake restoration planning and implementation, riparian/wetland restoration planning and implementation, public outreach and education, total maximum daily load support, water quality monitoring, and watershed planning and implementation.

Revenue Bonds

The sale of revenue bonds is a common source of funding to construct major utility improvements. Debt service payments of the principal and interest are recouped from the utility's rate revenue and charges. A key benefit of revenue bonds is the exemption of federal income tax.

A determination of the utility's ability to repay debt is very important. A debt service coverage ratio (total revenue less O&M and tax expenses, divided by the debt service payments requiring a coverage ratio) is calculated and the utility's finances are reviewed to determine if debt payments are feasible. Coverage ratios of 1.25 (25% more than the debt payment) are typical but coverage of 1.5 is a good financial target for planning purposes.

Utility Local Improvement Districts/Special Assessment Districts

Utility local improvement districts (ULID) and special assessment districts can be formed to fund projects that serve and benefit a limited service area. The costs of the improvements are borne only by the customers benefitting from these improvements.

Developer Contributions

Where possible, the Utility will leverage development related projects to have the benefitted parties pay for the costs of improved water service.

Infrastructure Assistance Coordinating Council (IACC)

The IACC does not provide direct funding but it is a non-profit organization that helps communities and tribes get resources to develop, improve and maintain infrastructure. The resources can be information, people, services and assistance (technical and financial) to eventually construct or implement the project infrastructure. IACC does this by:

- Sponsoring an annual statewide conference where state and federal programs assisting local governments and tribes with infrastructure needs convene to share information about their programs with local government representatives.
- Providing technical assistance to communities and tribes by bringing together the appropriate funding and technical assistance representatives with community members to collaborate on specific projects.

11.6 SUMMARY

This chapter summarizes the historical financial data for the utility since receivership to Lewis County in October 2010, and provides a projected financial plan with a rate transition plan. Although, we have been able to fund the water system operations, maintenance and improvements while maintaining a small fund balance, the actual operation and maintenance costs have been somewhat more than what was estimated in early 2010. This is primarily due to more repairs, problems and efforts than anticipated, personnel training and responses to meet changing regulatory compliance. All of these were anticipated challenges when we took on the utility, except for the breadth of each challenge. Another major unanticipated hitch was the constant replacement of equipment in the water plant which will be a challenge as the facilities near the end of useful life term, fail from years of neglected maintenance, become outdated by new technology and make compliance with regulatory requirements awkward and inefficient.

The financial plan shown in Table 11.3 best balances utility and customer needs. To assist with financial planning efforts, an interactive rate transition plan was developed and analyzed with different CIP schedules and proposed rate adjustments.

The required rate adjustments used in this chapter are not unusual, but it should be noted that the state of the current economy, and the closure of the local school in 2007 have affected growth in the service area. There is no major local employer and the service area has a low-moderate income population greater than 51%. While this plan estimates projected costs and revenues for the water utility, we will continue to monitor costs, improve operations, seek outside funding and adjust the plan as needed to ensure safe and reliable drinking water to our customers.

